

Message Text

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17

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FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC PRIORITY 4016

INFO AMEMBASSY MANILA

AMEMBASSY SEOUL

AMEMBASSY BANGKOK

C O N F I D E N T I A L TAIPEI 0327

E.O. 11652: GDS

TAGS: ETRD, TW

SUBJECT: YEUTTER-HUME DISCUSSIONS COTTON CONTRACT PROBLEMS

STATE PASS WILLIAMS, FAS/USDA

MANILA PASS YEUTTER-HUME

1. ABOVE OFFICIALS CONDUCTED DETAILED DISCUSSION OF COTTON CONTRACT PROBLEM WITH MINISTER OF ECONOMIC AFFAIRS Y.S. SUN (SUN-YUN-SHUAN) AND BOARD OF FOREIGN TRADE DIRECTOR Y. T. WONG (WONG YI-TING). RESULTS OF THESE DISCUSSIONS ARE SUMMARIZED BELOW.

2. Y.S. SUN ASSURED YEUTTER-HUME THAT THE GROC UNEQUIVOCALLY SUPPORTS THE PRINCIPLE OF SANCTITY OF CONTRACTS AND THAT THERE IS NO INTENTION OF RENEGOTIATING PRICE TERMS OF COTTON CONTRACTS WITH U.S. SUPPLIERS. SUN EXPRESSED DISSATISFACTION WITH PROGRESS IN OPENING L/C'S FOR CONTRACTED U.S. COTTON AND EXPLAINED THAT THIS LACK OF PROGRESS WAS DUE TO THE DIFFICULTY OF FINANCING CONTRACTS WHICH HAD BECOME UNBANKABLE DUE TO RISING PRICES OF RAW COTTON AND DECLINING PRICES OF FINISHED TEXTILE PRODUCTS. SUN URGENTLY REQUESTED GSM-4 FINANCING

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IN THE AMOUNT OF \$50 MILLION AND AGAIN STATED THAT IF

SUCH CREDIT WAS MADE AVAILABLE THAT IT WOULD BE USED TO FINANCE THE HIGHER PRICES CONTRACTED COTTON. SUN STATED THAT THE GROC WOULD PROVIDE THE NECESSARY GUARANTEE OF REPAYMENT OF THE GSM-4 LOAN AND THAT THE GOVERNMENT WOULD UNDERTAKE ALL NECESSARY MEASURES TO FORCE MILLS TO HONOR THEIR CONTRACTS FOR U.S. COTTON. SUN STRESSED THE URGENT NATURE OF THE REQUEST FOR GSM-4 FINANCING BY SAYING THAT MILLS WOULD LIKELY DELAY OPENING ANY L/C'S FOR COTTON WHILE PROSPECTS FOR MORE LIBERAL GSM-4 FINANCING UNDER DISCUSSION AND IT THEREFORE IMPERATIVE THAT A DECISION ON THIS MATTER BE REACHED AS SOON AS POSSIBLE. YEUTTER RESPONDED BY EXPLAINING DIFFICULTIES OF PROVIDING GSM-4 CREDIT FROM USG POINT OF VIEW BUT PROMISED TO EXPLORE THE MATTER AT APPROPRIATE LEVELS UPON HIS RETURN TO WASHINGTON. YEUTTER ALSO EXPLAINED THAT IF GSM-4 FINANCING IS APPROVED FOR TAIWAN IT WOULD PROBABLY BE ON THE BASIS OF EQUAL MATCHING FUNDS BY THE GROC.

2. IN MEETINGS WITH Y.T.WONG, BOFT, APPEAL FOR IMMEDIATE GSM-4 FINANCING WAS REPEATED AS WAS THE ASSURANCE THAT THE GROC AGREED THAT TEXTILE MILLS ARE OBLIGATED TO HONOR THEIR CONTRACTS FOR U.S. COTTON AS ISSUED. WONG HAS PROPOSED TO MOEA THAT FINANCING OF COTTON CONTRACTS BE HANDLED IN FOLLOWING MANNER:

A. BANK OF TAIWAN TO FINANCE CONTRACTED COTTON UNDER REGULAR COTTON LOAN PROGRAM TO TEXTILE MILLS UP TO A MAXIMUM AMOUNT OF 45 CENTS PER POUND ON ALL CONTRACTS TO BE PAID WHEN COTTON IS DELIVERED TO MILL.

B. SPECIAL GSM-4 THREE YEAR LOAN TO THE BAK OF TAIWAN WILL BE USED TO FINANCE COSTS EXCEEDING 45 CENTS PER POUND FOR ALL CONTRACTS.

WONG STATED THAT THE GOFT WILL TAKE THE NECESSARY MEASURES TO FORCE MILLS TO OPEN L/C'S FOR CONTRACTED U.S. COTTON IF GSM-14 FINANCING IS MADE AVAILABLE.

4. EMBASSY AGREES WITH GENERALLY EXPRESSED VIEW THAT ONLY POSSIBLE SOLUTION TO COTTON CONTRACT PROBLEM IN TAIWAN LIES IN AREA OF GOVERNMENT FINANCING. STRONGLY RECOMMEND THAT WE GIVE ALL POSSIBLE IMMEDIATE CONSIDERATION TO THE GROC REQUEST FOR GSM-4 FINANCING ON BASIS THAT GROC
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PROVIDE MATCHING FUNDS AS DESCRIBED PARA 2A ABOVE
AND GUARANTEE REPAYMENT OF THE GSM-4 CREDIT.
UNGER

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